UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/FPA/2000/2
23 November 1999

ORIGINAL: ENGLISH

First regular session 2000
24–28 January and 31 January 2000, New York
Item 9 of the provisional agenda
UNFPA

UNITED NATIONS POPULATION FUND

ADMINISTRATIVE AND OPERATIONAL SUPPORT COSTS REIMBURSED TO UNFPA

Report of the Executive Director

1. This report has been prepared in response to decision 98/22, in which the Executive Board accepted, as an interim measure, the proposed increase in administrative and operational support costs (AOS) from 5 per cent to 7.5 per cent with the proviso that the Executive Director undertake a study to quantify the level of charges for AOS and report back to the Board in the following year for a final decision on the AOS rate. In the discussions leading up to that decision, several delegations expressed support for the proposed increase, while pointing out that further analysis was needed to justify the increase.[1] The Advisory Committee on Administrative and Budgetary Questions (ACABQ), commenting on UNFPA's review of its multi-bilateral trust-fund arrangements (as contained in document DP/FPA/1998/11), stated that it had no objections to the proposed increase in AOS reimbursed to UNFPA from 5 per cent to 7.5 per cent (DP/FPA/1998/14). However, it recommended that the matter be kept under review and be resubmitted to the Committee when updated cost-measurement information became available.

[1] DP/1999/1, Report of the third regular session 1998 of the Executive Board of UNDP/UNFPA.

2. In order to develop a clear picture of administrative and operational support costs within the context of UNFPA execution, this report will do the following: briefly review the evolution of UNFPA support-cost arrangements; tap into the experiences of partner organizations within the United Nations; define the major tasks that comprise AOS both at UNFPA headquarters and in the field; and provide a staff workload analysis that will quantify the cost of UNFPA execution. Taking into consideration specific country and headquarters experience, the accompanying analysis will provide support that the current level of AOS reimbursement to UNFPA of 7.5 per cent for execution of co-financing[2] trust-fund activities recovers a reasonable level of the costs of execution and, as a result, further limits the adverse impact on UNFPA core resources.

I. BACKGROUND

3. This report addresses the issue of the adequate level of cost recovery for "substantive operational support" or administrative and operational support services provided by UNFPA in the execution of co-financing trust-fund projects. It does not address the recovery of costs associated with overall managerial support to the administration of trust funds, which was the subject of document DP/FPA/1998/11, submitted to the Executive Board at its third regular session 1998. Document DP/FPA/1998/11 provided a clear distinction between costs associated with administrative and operational support (AOS) versus those associated with managerial support services (MSS). It also proposed a separate rate of reimbursement for MSS costs (5 per cent), which was endorsed by the Executive Board in decision 98/22. And while the recovery of MSS costs is applicable to all co-financing trust funds, UNFPA recovers AOS costs only when acting as the executing agency for co-financing trust-fund projects.

4. The administrative and operational costs that are to be reimbursed through AOS can be defined as the necessary and inherent services provided by the executing agency, which, by their nature, cannot be explicitly identified and charged as direct costs to the project. These costs include both variable and fixed elements, meaning that the level of the different costs associated with project execution may or may not vary with the volume of trust-fund activity. It should be noted that the inclusion of certain fixed costs in the cost-recovery methodology for non-core resources has implications for the financial structure of the organization. As such, costs related to the overall management and administration of the organization are excluded from consideration in the definition of AOS.

5. Over the past several years, some members of the Executive Board have expressed concern that regular resources appear to be subsidizing co-financing activities. Furthermore, the governing bodies of many United Nations organizations have highlighted the importance of cost recovery, especially for non-core activities. Therefore, UNFPA took the opportunity to review the

[2] UNFPA has introduced the term "co-financing" which replaces the old terminology of "multi-bilateral" and also includes the resource mobilization strategy of cost sharing. In the context of this report, the term co-financing trust funds refers to what had been previously termed multi-bilateral resources.

documented studies of several other agencies, including UNDP, UNICEF and FAO, in an attempt to learn from their efforts and to harmonize, to the extent possible and feasible, the methodology to be used by UNFPA.

6. The Fund's Report on proposed UNFPA successor arrangements for agency support costs (DP/1991/35) established the framework for reimbursing agencies for the services at headquarters and the regional level necessary for the implementation of UNFPA country activities. These services comprise what UNFPA now refers to as administrative and operational support costs. The report stated that, in the spirit of partnership, UNFPA would reimburse up to 50 per cent of these costs to the agencies based on the cost-measurement study that UNDP was then undertaking jointly with a number of United Nations agencies and organizations.[3] As a result, the Governing Council, in decision 91/37, authorized the Executive Director to reimburse executing agencies at a rate of 7.5 per cent.

7. In decisions 95/23 and 96/31, the Executive Board established the successor programming arrangements for UNDP. These decisions confirmed the continued relevance and importance of the "tripartite" principles underlying support-cost arrangements.[4] The reimbursement of administrative support costs within and throughout the United Nations system is based on the premise that each agency benefits in some respect from the collaboration of programme funding and execution such that the support-cost arrangements represent a sharing of the total cost of administrative and operational support services.

8. Several system-wide and agency-specific measurement studies over the years have supported this premise in that support costs reimbursed to executing agencies do not fully cover all of the costs of project execution. Of the organizations reviewed, FAO utilizes the most detailed and intensive approach. Each year, FAO prepares a "Work Measurement Survey" resulting in a "Cost Measurement System", the principal objective of which is to reflect "full cost accounting wherein all indirect overheads are distributed over the productive activities of the Organization" ("Summary of Purpose and Methodology for the Work Measurement Survey and the Cost Measurement System", FAO, 1997). However, other organizations rely on desk studies and field missions every few years to review, substantiate and/or update their current support-cost arrangements.

9. It is important to note some of the limitations posed by differences in structure and procedures. Several organizations incorporate the use of interest earned on "supplementary funds" as part of their cost-recovery programme. However, UNFPA's flexibility in this area is restricted somewhat by its Financial Regulations and Rules. Furthermore, a few organizations include programme support along with management and administrative services in their standard rate of

[3] See paragraphs 58–60 of document DP/1991/35, which was presented to the Governing Council at its thirty-eighth session (3–21 June 1991).

[4] The principle of shared tripartite responsibility refers to the partnership between the Government, executing agency and UNDP in contributing to the costs of operating technical cooperation activities in furthering the development objectives of the country.

cost recovery. As noted above, UNFPA has a separate rate for substantive support (AOS) and for managerial support services (MSS).

10. In order to have an overview of the varying rates used among the organizations, UNFPA contacted a number of United Nations agencies and organizations[5] involved in project funding and execution, and requested advice regarding their current policies for recovering AOS costs. Most United Nations agencies that execute projects have established a standard rate of recovery of 13 per cent, which was based on the cost-measurement studies undertaken by UNDP. However, in an effort to make its support-cost arrangements more uniform and to facilitate administration of projects, UNDP replaced the cluster rates that applied to different project components and the 13 per cent rate for small agencies with a flat rate of 10 per cent. Due to the specialized nature of their activities and organizational structures, UNICEF and WFP have calculated rates based on different standards and assumptions.[6]

11. Although most agencies have established a standard rate for the majority of activities involved in project execution, many have allowed flexibility in the negotiation of the rate under various circumstances. It is UNFPA's aim to develop and maintain a simple and transparent approach to identifying and quantifying the activities or services that give rise to support costs. Although levels of support provided by UNFPA as executing agency may vary depending on size and complexity of projects as well as the size and capacity of the country office, UNFPA has opted to maintain a uniform AOS percentage to be applied to all trust-fund projects executed by UNFPA to facilitate administration in both the country offices and headquarters divisions. In addition, UNFPA will systematically review the recovery rate periodically to ensure that it continues to adequately cover the indirect costs associated with UNFPA execution as agreed by the Executive Board.

II. DEFINITION AND ESTIMATION OF PROPORTIONATE COSTS

12. UNFPA does not have a separate support structure to manage co-financing trust funds. Therefore, when UNFPA chooses to act as executing agency for a co-financing trust-fund project, the country office and many divisions at headquarters must absorb additional work in support of the project. Although direct costs are built into the project budget (e.g., project personnel, equipment and supplies, travel, etc.), there are indirect support costs associated with assuming the administrative function of project execution. These costs are recovered, to some extent, in the AOS rate. In general, although the country offices or headquarters divisions responsible for the execution of the project are most affected by increasing workloads, there is also additional work for the management and administrative and programme support functions at headquarters.

---

[5] Agencies contacted include UNDP, UNOPS, UNICEF, WFP, FAO, WHO, ILO, the International Maritime Organization (IMO), and the International Civil Aviation Organization (ICAO).

[6] UNICEF charges 5 per cent on supplementary resources and retains any interest earned on balances held. WFP will be replacing its current multi-rate system with a standard rate for all types of project activities beginning in the year 2000.

13. UNFPA developed a survey to assist in the identification of the main tasks associated with project execution. This survey was distributed to the geographic and technical divisions at headquarters, as well as to those country offices that have had the largest proportion of UNFPA execution within their co-financing portfolios over the past several years. In addition to identifying the activities associated with project execution, the participants in the survey were requested to provide their general estimation of workload levels for the various staff involved in project execution. The rate of response to the survey was nearly 100 per cent, and UNFPA received valuable insight into the requirements of project execution.

14. AOS was defined in the survey as the services at headquarters and in the field that are necessary for the effective execution of project activities. In line with this definition, administrative activities may include: recruitment and placement of personnel; procurement of equipment; servicing of fellowships; budget and financial management; and external and internal audit management. Operational activities may include: guidance and supervision of personnel; monitoring of workplans and budgets; periodic reporting; formulation and evaluation of training activities; and subcontract negotiations and monitoring. Table 1 provides a composite of the responses received in the survey. UNFPA found that, of the many studies that have been carried out by various organizations, there is a general consensus of the composition of activities comprising administration and operational support. The respondents emphasized the fact that the workload of some tasks varies throughout the project cycle and that some projects or components may be more "expensive" to administer than others. However, like many of its partner organizations, UNFPA recognizes that the additional costs would be compensated by components or projects requiring less input or effort, and thus has chosen to establish a rate of recovery that would be applicable to all instances of UNFPA execution.

Table 1
Workload Analysis of Administrative and Operational Support Services provided by UNFPA as Executing Agency

Main Activity/Tasks	COUNTRY OFFICE	HEADQUARTERS
1. Project personnel administration • Develop Terms of Reference • Candidate identification and selection • Guidance and supervision • Payroll and benefits administration	DR/AR FA NPO	OPT PO
2. Equipment and supply procurement • Specifications • Purchase order • Equipment maintenance • Reporting • Final disposal	NPO DR/AR FA	PrO CRC
3. Subcontract management • Develop Terms of Reference • Candidate identification and selection • Contract/Letter of Agreement • Monitoring	NPO DR/AR FA	PO
4. Training administration • Design • Logistics • Review/Evaluation	DR/AR NPO FA	PO OPT
5. Monitoring • Communication and reporting	REP/DR/AR NPO	PO
6. Project financial management • Funds administration (allocations and disbursements) • Information technology • Financial reporting	REP/DR/AR NPO FA	PO FB
7. Substantive review, evaluation and reporting • Communications	REP/DR/AR	EO PO

KEY:

Country office

REP - UNFPA Representative
DR - Deputy Representative
AR - Assistant Representative
NPO - National Programme Officer
FA - Finance and/or Administrative Assistant

Headquarters

PO - Programme Officer
PrO - Procurement Officer
EO - Evaluation Officer
CRC - Contracts Review Committee
FB - Finance Branch
OPT - Office for Personnel and Training

15. In further identifying activities and costs associated with the substantive operational support UNFPA provides to co-financing activities, a workload analysis was performed based on information from the same country offices used in the survey process (see para. 13), as well as headquarters divisions involved in project execution. The participants were requested to quantify the proportionate amount of time spent by each level of staff on core activities as compared to co-financing activities. The workload analysis was further quantified by applying a global standard cost to each staff level and calculating the weighted cost of co-financing activities. The study confirmed the common notion that the actual costs of project execution far exceeded the current 7.5 per cent reimbursement rate, let alone the previous 5 per cent rate.

16. The survey and workload analysis, which were based on country projects as opposed to interregional projects, show that the cost of project execution for UNFPA is approximately 15 per cent to18 per cent, depending on the complexity and substantive nature of the project, as well as the size of the country office. The costs included in the calculation were limited to country office and geographic division personnel costs. In addition, the Fund's experience with a large-scale regional project that identified both direct and indirect AOS costs generally confirms the country-project rates of 15 per cent to 18 per cent. During the discussions at the third regular session of the Executive Board in September 1998, delegations agreed that there should be full cost recovery for AOS (DP/1999/1). However, for the reasons stated in paragraphs 4 and 7 above, and as has been the preferred methodology of other organizations within the United Nations system, the workload study did not include an allocation of indirect "fixed" costs such as office space, utilities, information technology, equipment and organizational administration.

17. The combined survey and workload study completed by UNFPA in responding to Executive Board decision 98/22 attempts to arrive at an estimation of the major indirect costs of project execution. However, for many of the reasons noted above, the support-cost rate cannot in all instances be expected to fully recover all costs associated with the administration and operations of projects. Therefore, UNFPA acknowledges that the "unrecovered", or balance of, administrative and operational support costs incurred as an executing agency is absorbed by the Fund's biennial support budget. In light of this, UNFPA will continue to be selective in its decision to execute co-financing trust-fund projects, ensuring that UNFPA has a clear comparative advantage in the substantive or operational characteristics of the project it is executing. In this way, UNFPA will limit the impact on the workload of country office and headquarters staff, as well as mitigate the financial implications to core resources while taking advantage of the benefits to the regular programme that will be derived from the support and execution of these co-financing projects.

18. It is important to underscore the fact that core resources remain the foundation of UNFPA funding. Yet, co-financing provides a means of attracting additional resources in support of UNFPA's mandate and activities. A concern expressed by some delegations has been that the increase in AOS would reduce the availability of co-financing resources. UNFPA recognizes the

need to balance cost recovery with the ability to be competitive in attracting additional resources for quality programmes. Therefore, UNFPA will carefully monitor the situation, both at headquarters and in the field, to determine the effects of the increase in AOS for UNFPA execution. Reviewing the limited experience gained thus far in 1999 shows that UNFPA has successfully negotiated and signed 22 agreements for approximately $8.5 million, and there are another 10 agreements that are pending.

III. CONCLUSION

19. This report has endeavoured to address Executive Board decision 98/22 through the following:

(a) A brief review of the history of the evolution of support-cost reimbursement;

(b) An overview of the policies and methodologies of partner organizations;

(c) A detailed description of the activities that comprise administrative and operational support services;

(d) A summary of the findings of a survey and workload analysis regarding the quantification of indirect costs associated with UNFPA execution of co-financing trust-fund projects.

20. By necessity, this report has been narrowly focused on the issue of the level of reimbursement of AOS to UNFPA as an executing agency. It should be noted that, in areas other than procurement, UNFPA execution represents a relatively small portion of co-financing project execution. Hence, the subsidization of co-financing activities by core resources is relatively small and should be viewed in the spirit of partnership and "tripartite" principles underlying support-cost arrangements. In conclusion, UNFPA believes that adequate justification exists for the current rate of reimbursement for AOS of 7.5 per cent and that such a rate further limits the adverse impact on UNFPA core resources. UNFPA will continue to keep under review the rate of reimbursement for AOS, as well as the level and content of UNFPA execution. UNFPA will report back to the Executive Board on the impact, if any, on resource mobilization under the new AOS rate.

IV. RECOMMENDATION

21. The Executive Director recommends that the Executive Board provide a final endorsement for the standard rate of 7.5 per cent for reimbursement of administrative and operational support costs for UNFPA execution of co-financing trust-fund activities.

* * * * * *